

#### **IV. SWITCHING AND INTEROFFICE FACILITIES**

The incumbent LECs' comments on switching neither raise significant new arguments nor present any new, verifiable data, and in the main simply rehash issues that have already been decided.<sup>47</sup>

##### **A. Switch Upgrades**

Contrary to the incumbent LECs' claims,<sup>48</sup> the proposed synthesis model treatment of switch upgrade costs is fully consistent with forward-looking costing principles. The incumbents conflate two distinct types of upgrades. First, most switches are upgraded to reflect technology improvements and such upgrades may consist of both new hardware and new software. The costs of these "technology upgrades" are already reflected and recovered in the model through the model's forward-looking depreciation lives, which are much shorter than the actual useful life of a switch with these technology upgrades.<sup>49</sup> Accordingly, any adjustment to reflect technology upgrades would arbitrarily double-count the costs of these upgrades.

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<sup>47</sup> AT&T and MCI WorldCom stated in their comments that the synthesis model currently applies the switch administrative fill factor to the entire switch investment. Upon further review, AT&T and MCI WorldCom have determined that for the host and remote switches, this fill factor is being properly applied to the variable cost per line component. In addition, as noted by GTE, while the synthesis model properly sizes the standalone-switches, it improperly fails to apply the fill factor to the variable cost per line.

<sup>48</sup> See Sprint at 42-43, 47-48; Bell Atlantic at 8-10 & Ware/Dippon Aff., ¶¶ 16-22; BellSouth at B-15 to B-16; GTE at 68.

<sup>49</sup> For example, the analog stored program controlled switches that are still in the embedded network today were introduced in the mid-1960s, and thus are more than thirty years old.

Second, Bell Atlantic's proposed approach for calculating switching costs (Bell Atlantic at 9-12) based on "add-on" capacity upgrades is likewise fundamentally flawed. Large buyers of new switching equipment can obtain deep discounts from vendors' "standard" or "retail" prices for that equipment. Bell Atlantic, however, claims that the synthesis model should assume that much of the switching equipment used by suppliers of the supported services would be "add-on" equipment (primarily line cards that can be purchased to upgrade the capacity of existing switching equipment) that is priced much higher than new switching equipment. *Id.* Bell Atlantic contends that this approach is necessary to reflect its "real world" forward-looking costs because it cannot "instantaneously rebuild[d]" its network to reflect efficient design. Bell Atlantic, Attachment C at 9. Bell Atlantic's approach would thus have the Commission calculate switching costs in which a large portion of the costs would be attributed to switching capacity that Bell Atlantic claims will be purchased at prices reflecting the smaller discounts available for add-on equipment and/or that reflect capacity that is not needed to serve present demand.

Bell Atlantic's proposed methodology would stand the Commission's forward-looking methodology on its head.<sup>50</sup> An efficient firm seeking to minimize costs – as

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<sup>50</sup> Bell Atlantic's switch cost arguments here are identical to those it has made, largely without success, to state regulatory commissions in proceedings to establish network element rates pursuant to Sections 251 and 252 of the Act. In November 1997, AT&T filed a Complaint against Bell Atlantic, in which it demonstrated *inter alia* that Bell Atlantic's treatment of switching costs violated the pricing conditions the Commission imposed on Bell Atlantic in connection with its acquisition of NYNEX – *i.e.*, that it comply with the Commission's forward-looking, economic cost pricing standard. *AT&T Corp. v. Bell Atlantic Corp.*, File No. E-98-05. MCI WorldCom filed a similar Complaint in December 1997. *MCI Telecommunications Corp. v. Bell Atlantic Corp.*, File No. E-98-12. AT&T and MCI WorldCom incorporate by reference into these reply (continued . . .)

firms must do in competitive markets and as the Commission's forward-looking costing standard requires – would, to the maximum extent possible, buy new equipment, properly sized to meet anticipated demand, at new equipment discounts. It would do so because, in a competitive market, only efficiently incurred costs can be recovered – *i.e.*, the costs of assets that are optimally configured and sized with current technology and efficient operating practices. By contrast, a competitive market would never allow the recovery of a costly patchwork of after-the-fact add-ons to undersized switches, as Bell Atlantic now advocates.<sup>51</sup> And it is precisely for these reasons that the Commission has repeatedly required that universal service and network element costs be calculated on the basis of efficient network design.<sup>52</sup>

Bell Atlantic's approach also is not based on *long run* costs as required by the *Universal Service Order*. *Id.* ¶ 250(3). As the Commission observed, the "long run is a period so long that all of the firm's present contracts will have run out, its present plant and equipment will have been worn out or rendered obsolete and will therefore need

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comments the pleadings submitted in those proceedings.

<sup>51</sup> Tellingly, Bell Atlantic made exactly this point when it tried to explain why new entrants would be able to compete effectively in the New York market in order to justify its merger with NYNEX. More specifically, Bell Atlantic argued that because of the difference in price between new switch lines and add-on lines, "it would be far *more cost efficient* to install a new switch, in proximity to and dedicated to the targeted customers, rather than to upgrade existing distant switches to serve those customers." Declaration of Nancy Sayer, ¶ 11 (filed in *Application of NYNEX Corp. Transferor, to Bell Atlantic Corp. Transferee, For Consent to Transfer Control of NYNEX Corp. and Its Subsidiaries*, File No. NSD-L-96-10) (emphasis added).

<sup>52</sup> See *Local Competition Order*, ¶ 685; Report and Order, Federal-State Joint Board on Universal Service, 12 FCC Rcd. 8776, ¶ 250(1) (1997) ("*Universal Service Order*"); Fifth Report and Order, Federal-State Joint Board on Universal Service, 13 FCC Rcd. 21323, ¶ 66 (1998) ("*Platform Order*"); 47 C.F.R. § 51.505(b)(1).

replacement.” *Local Competition Order*, ¶ 677 n.1682 (quoting William Baumol, *Economic Theory and Operations Analysis* (4th ed. 1977) at 290). A firm in the long run therefore is free to choose assets that are optimally sized and configured, unfettered by the legacy of past fixed investments.<sup>53</sup>

Bell Atlantic’s claim that the Commission’s approach “assume[s] that a LEC can instantaneously build a purely hypothetical network to serve total present and future demand on day one,” Bell Atlantic, Attachment C at 10, is a caricature. The case for using new equipment discounts as a determinant of forward-looking switching costs rests on several grounds, none of which assumes that Bell Atlantic – or any other incumbent carrier – will *ever* achieve an optimal switch configuration. Efficient firms in competitive markets converge toward optimal asset configurations over the long run, and the ever-present threat of entry by new competitors with all-new equipment holds prices down to those levels. Moreover, the present value of any add-on equipment acquired *after* new entry should be relatively small, for the large amount of reserve switch capacity assumed in synthesis model switching costs should obviate the need for any additional processor capacity for years. Regardless of the actual switch mix, the *economic* (as opposed to embedded) cost of switching equipment can never exceed the cost of buying it new for existing demand. A rational profit-maximizing firm will deploy add-on

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<sup>53</sup> Bell Atlantic’s approach also is riddled with internal inconsistencies. Bell Atlantic is costing the network that it might acquire in the short run to comport with its legacy of sunk investment in long-lived assets, while ignoring the zero-cost incremental nature of much of that sunk investment during the same time period. This methodology does not reflect what costs any real firm would experience under any circumstances, as it assumes away both the advantages of long-run freedom to choose efficient assets and the advantages of inherited sunk assets whose use entails no further economic costs. In short, Bell Atlantic’s standard assures estimates of costs that exceed both long run *and* short run (continued . . .)

equipment only so long as its incremental cost is *less than* the total cost of all-new equipment.

Finally, Bell Atlantic's additional claim that the Commission should not attempt to model changes in switch costs over time, *e.g.* Bell Atlantic at 12; *see also Further Notice*, ¶¶ 166-68, is plainly misguided. That claim is based on the assertion that the Commission "makes an incorrect assumption that switch prices will continue to decline. In Bell Atlantic's experience, switching costs have leveled out in the last few years." Bell Atlantic at 12. Bell Atlantic's claim is false and, indeed, is directly contradicted by USTA, which just two months ago told the Commission that switching prices "have declined 60 percent from 1986 to 1996 and *are projected to fall another 12 percent by 2000.*"<sup>54</sup> Accordingly, the Commission should modify switch cost data to account for lower costs. *See* AT&T/MCI WorldCom Comments at 38-39 (but noting that a standard logarithmic functional form should be used).

#### **B. Digital Loop Carrier Adjustment**

The incumbent LECs assert that the Commission need not include an offset to account for the indisputably lower costs of terminating lines via a DLC. *See* GTE at 66; Sprint at 49. GTE (at 66), for example, admits that there is "savings from DLC," but

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forward-looking costs.

<sup>54</sup> USTA Comments, CC Docket 96-98 (May 26, 1998), "UNE Fact Report," by Peter W. Huber & Evan T. Leo, at I-28 (*emphasis added*). Bell Atlantic's assertion regarding trends in switching costs is apparently based on its 1994 switch contracts. Bell Atlantic Garzillo Aff. ¶ 5. If Bell Atlantic in fact agreed to switching contracts that "effectively froze prices on switching equipment," *id.* ¶ 6 (public version), those prices would reflect its idiosyncratic business judgment, and not the true, forward-looking costs of an efficient carrier. In any event, if switch prices are no longer projected to decline, switch depreciation life should be extended out to its physical life.

nonetheless urges the Commission to reject a downward cost adjustment to reflect these cost savings and instead make an *upward* adjustment because, in GTE's view, the model may calculate more analog lines than actually exist in the depreciation data set due to its use of an 18 kilofeet maximum copper loop length. GTE at 66. GTE then asserts that the higher switch costs from serving these "extra" analog lines needs to be added to the model. *Id.* GTE nowhere provides empirical support for these assertions concerning the percent of digital lines versus analog lines, and, even if true, GTE could not justify failing to reflect cost savings where DLC is appropriately deployed. It is indisputable that the proposed depreciation and RUS data currently underestimate significantly the amount of DLC savings that would be generated in a forward-looking environment.<sup>55</sup> AT&T's and MCI WorldCom's solution is simple, and contrary to GTE's claims, does not require the Commission to measure "hypothetical future savings." GTE at 66. Using the most conservative assumptions, DLC saves at least \$30 per line.<sup>56</sup> After making an upward cost adjustment to this depreciation and RUS data proposed cost input to convert all lines to analog, this DLC savings adjustment would then lower per line switching costs by \$30, but *only* for the lines that the model calculates as provisioned on DLC. *See* AT&T/MCI

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<sup>55</sup> As AT&T and MCI WorldCom demonstrated in their opening comments (at 41-43), the depreciation data set includes switch costs reflecting the embedded mix of IDLC lines, which is far less than the ratio of IDLC lines that is calculated in the Commission's forward-looking synthesis model.

<sup>56</sup> That figure includes \$12 saved in MDF costs, and there can be no dispute that DLC lines do not require an MDF. In addition, the proposed adjustment includes \$18 for the DLC switch port termination, which is derived by taking the midpoint of a figure used by a Bell Atlantic network planner. AT&T/MCI WorldCom at 41-42. There can be no valid claim, therefore, that this figure is not verifiable.

WorldCom at 41-43. This adjustment is the most reasonable way to account for DLC savings, and the Commission should adopt it.

## **V. EXPENSES**

The incumbent LECs have raised several challenges to the Commission's proposed methodology for calculating expenses. Although the Commission's methodology may suffer from some imperfections, AT&T and MCI WorldCom believe that the Commission's tentative input values for expenses are reasonable. Indeed, the Commission's proposed regression-based, per-line expense values – the main focus of the incumbent LECs' attack – are consistent, on net, with those proposed by BellSouth in its comments, and with the BCPM national default inputs.<sup>57</sup> Accordingly, even if the Commission elects to modify its proposed methodology in some minor respects, it should not adopt expense values that differ significantly from those it has tentatively adopted.

To the extent the incumbent LECs have provided the Commission with proposed alternatives, instead of just criticism, they have not provided other commenters with sufficient back-up information to meaningfully evaluate the incumbent LECs' proposals. The Commission has provided a documented methodology with reviewable input data, and alternative proposals should provide the same opportunity for meaningful review.

To the extent AT&T and MCI WorldCom were able to review these proposals, AT&T and MCI WorldCom remain concerned that the incumbent LECs' (and the Commission's) proposed inputs do not exclude the costs associated with unsupported services and one-time charges.

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<sup>57</sup> BellSouth at Exhibit 2, p.1; U S West, Pacific Tel and Sprint BCPM Documentation at Attachment 10, p.3. (Jan. 13, 1997).

In addition, the incumbent LECs appear to criticize the appropriateness of the Commission's input values on the grounds that they are lower than the embedded costs allegedly incurred by the incumbent LECs. But a forward-looking network *often* will result in lower costs than an embedded network. Although Sprint (at 55-56) would have the Commission believe that maintenance costs per unit of plant *increase* over time, the trend in the industry has been to develop equipment and practices to *minimize* maintenance expense. Indeed, if there is any problem with the Commission's maintenance expense ratios, it is that they reflect the servicing of too much embedded (and thus higher maintenance) plant, and too little forward-looking (and thus lower maintenance) plant. Had the Commission's analysis been based exclusively on financials that reflected equipment consistent with the most efficient forward-looking practices, the maintenance expenses would have been lower. In addition, employees per 10,000 lines has steadily dropped by 5 percent per year for the RBOCs since 1984. Similarly, cash operating expenses per line has declined on a nominal basis by 9 percent per year (overall) since 1994, and by 2.4 percent compound annual growth rate through the end of 1998 for Tier I carriers. Thus, the clear trend in the industry is for *declining* costs, and the expense input values adopted by the Commission therefore *should* be lower than the incumbent LECs' embedded costs.<sup>58</sup>

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<sup>58</sup> Sprint claims that nationwide estimates should not be used for support or plant-specific expense input values because the RBOCs operate in high density areas and, consequently, nationwide values allegedly will understate significantly the costs incurred by smaller companies that operate in lower density areas. Sprint at 51-55. Sprint attempts to support this argument using 1997 ARMIS 43-08 plant data. *Id.* These data reveal, however, that the most significant driver of cost differences between carriers in the ARMIS study area data is *efficiency*. For example, by Sprint's own density metric, Sprint is 37 percent more dense than CTEC (Commonwealth of PA), a small carrier with less  
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## VI. CAPITAL COSTS

### A. Depreciation

Predictably, only the incumbent LECs challenge the Commission's tentative decision to rely on its Part 32 depreciation lives and net salvage lives. Ameritech at 31; Bell Atlantic at 23-24; BellSouth at B-23 to 24; GTE at 85; SBC at 21-23. The Commission properly rejected the incumbent LECs' arguments against use of Part 32 depreciation lives in its *Further Notice* (§ 235), and the incumbent LECs provide no new evidence to demonstrate that these lives are not forward-looking.

Nor could they. Indeed, as the GSA demonstrates, the Commission's depreciation lives currently permit incumbent LECs to take depreciation charges well in excess of actual retirements. Thus, the Commission's rules allow for an average depreciation rate of 7 percent even though incumbent LECs are retiring plant at only a four percent rate. GSA at 5. As a result of this consistent excess of accruals over retirements, LEC depreciation reserves have risen from 18.7 percent in 1980 to 50.7 percent in 1998. *Id.* at 5-6.

The Commission should likewise reject the scattershot arguments made by the incumbents in favor of highly accelerated depreciation rates. For example, Ameritech argues (at 31) that the Part 32 depreciation lives are flawed because they are longer than those advocated by Technology Futures, Inc. ("TFI"). Contrary to Ameritech's claims, TFI is not "independent" but, as the Delaware Public Service Commission noted in

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than 4 percent of the switched lines of Sprint. See 1997 ARMIS 43-08 (showing CTEC with 254,945 switched lines). Nonetheless, and contrary to Sprint's argument, CTEC's monthly plant-specific expense per line (\$5.88) is less than half the unit cost of Sprint's (\$14.23).

rejecting the use of TFI-sponsored depreciation rates, the “firm’s primary source of income comes from studies paid by an association of local exchange carriers.” Findings and Recommendations of the Hearing Examiners, PSC Docket No. 96-324, ¶ 79 (De. PSC Apr. 7, 1997), *aff’d*, Findings, Opinion and Order No. 4542, PSC Docket No. 96-324, ¶ 30 (De. PSC July 8, 1997). And precisely because the TFI lives are unrealistically short, they have been widely rejected by state commissions that have considered them. *E.g., id.* (rejecting TFI lives for use in Delaware and noting that they have been rejected in New Hampshire and New Jersey); Commission Order, Case No. 96-1516-T-PC, *et al.*, at 65 (W.V. PSC May 16, 1997) (rejecting use of TFI lives for West Virginia).<sup>59</sup>

The incumbents’ accounting depreciation proposals are equally flawed. *See* Bell Atlantic at 24; GTE at 85; SBC at 21-23; Sprint at 77. There is simply no relationship between financial accounting rules and forward-looking costing principles. For example, if an incumbent LEC intends to replace its existing telecommunications network with an integrated telecommunications-video network, it might be appropriate for the incumbent LEC to use shorter lives for financial reporting purposes, but the costs attributable to non-basic telephone services are not entitled to universal service support and should not be included in a forward-looking cost study. *See Platform Order*, ¶ 70. And it is precisely because financial accounting rules are not designed to protect the interests of ratepayers that the Commission has rejected their use for regulatory purposes. Report and Order, *Simplification of the Depreciation Prescription Process*, 8 FCC Rcd. 8052, ¶ 46 (1993).<sup>60</sup>

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<sup>59</sup> Bell Atlantic affiant Rosston, while correctly advocating the use of forward-looking depreciation lives and schedules, produces no evidence that the Commission’s current lives and schedules are not forward looking.

<sup>60</sup> Sprint also suggests that the Commission’s lives are flawed because they do not reflect (continued . . .)

Only Ameritech argues in favor of accelerated depreciation. Ameritech at 30.<sup>61</sup> Ameritech is silent as to what precise method the Commission should use. That is because, as AT&T and MCI WorldCom have explained, and other commenters have recognized, *see, e.g.*, GTE at 85; Sprint at 75, departures from straight line depreciation would require the Commission to engage in speculative, and time consuming investigation for each asset class as to the precise depreciation curve for that asset class. AT&T/MCI WorldCom at 48. That would be both wasted and counterproductive effort, because there is no reason to expect the facilities used today to provide basic local services will depreciate more rapidly today than they will in succeeding years. *Id.*

#### **B. Cost of Capital**

As the GSA recognizes, it is clearly inappropriate for the Commission to use the current federal rate of return of 11.25 percent to calculate universal service costs. GSA at 6-7. As AT&T and MCI have elsewhere explained in great detail, the current federal rate of return, which was set in 1990, grossly exceeds the true forward-looking cost of capital of approximately 8.64 percent. AT&T/MCI WorldCom at 50 (citing Responsive Submission of AT&T Corp. to Prescription Proceeding Direct Case Submissions and

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the early retirement of digital switches with packet switches. Sprint at 76. But as the Commission has already found, costs incurred by incumbent LECs to provide advanced services are not supported by the federal universal service fund. *Platform Order*, ¶ 70. Indeed, this provides an apt illustration as to why use of financial accounting depreciation rules are not appropriate because depreciation expenses associated with such early retirements would properly be included in the companies financial books. In addition, Sprint did not complement its proposal to accelerate circuit switch retirement with the substitution of lower-priced packet switch costs for the circuit switch costs currently modeled. *See* Sprint at 42.

<sup>61</sup> Although Bell Atlantic affiant Rosston argues in favor of accelerated depreciation, this position does not appear to be endorsed by his sponsor.

Reply Comments on the Notice of Proposed Rulemaking, *In the Matter of Prescribing the Authorized Unitary Rate of Return for Interstate Servs. of Local Exchange Carriers*, CC Docket 98-166 (March 16, 1999)). This inflates the calculated cost of basic service in the synthesis model by 10/3 percent and likely inflates federal subsidy expenses by far more. Thus, the Commission should conclude the federal rate prescription proceeding immediately so that it can use the same cost of capital for universal service costs on January 1, 2000.

## VII. OTHER ISSUES

As described in AT&T's and MCI WorldCom's comments, the Commission should aggregate a holding company's operations within a state for purposes of applying the criteria of 47 U.S.C. § 153(37). No commenter has rebutted AT&T's and MCI WorldCom's showing that efficiencies are reaped on the holding company level, or that treating study areas separately would allow a holding company to devise corporate structures that manipulate the universal service system to the detriment of competition and consumers.

GTE (at 92-93) claims that aggregating a holding company's operations within a state for purposes of applying the criteria of Section 153(37) would be inconsistent with two of the four criteria included in that section. GTE's argument, however, ignores the fact that the "study area" concept originally was designed to encompass a company's complete operations within a state. It is only through GTE's acquisitions and corporate structuring decisions that it finds itself with multiple corporate subdivisions within a single study area. Because the intent of the statutory provision is to encompass a company's complete operations within an individual state, and because efficiencies are reaped on precisely this statewide level (and GTE's alternative proposal would create

opportunities to manipulate the universal service system), the Commission should aggregate a holding company's operations within a state for purposes of applying the criteria of Section 153(37).

## CONCLUSION

For the foregoing reasons, the Commission should revise its proposed input values as described in AT&T's and MCI WorldCom's comments and reply comments.

Respectfully submitted,  
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# **EXHIBIT A**

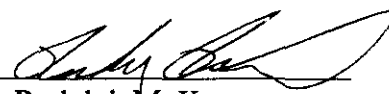
	(A)	(B)	(C)	(D)	(E)
	Monthly Cost of Basic Service				
State	Company	Geocoded Supplemental with Road Surrogate (Ratio)	Cost Impact of Surrogates Replacing Available Surrogates	Percent of Locations With Available Surrogates	Overall Potential Cost Impact of Using Surrogates
Alabama	Central Of The South Gas & Elec	\$59.85	1.3%	33.0%	3.0%
Alabama	Gas And Central Of Alabama	\$44.80	1.8%	55.7%	3.2%
Alabama	South Central Bell-A	\$30.34	3.0%	74.7%	4.0%
Arizona	Mountain Bell-Arizona	\$18.27	2.3%	73.0%	3.2%
Arkansas	Southern Bell-Arkansas	\$27.54	3.1%	74.7%	4.1%
California	Central Of California - California	\$35.15	5.0%	94.9%	9.0%
California	Gas Of California	\$16.12	2.2%	89.1%	3.2%
California	Pacific Bell	\$15.93	1.7%	92.1%	2.8%
California	Torreyville Telephone Company	\$17.97	0.2%	49.5%	0.4%
Colorado	Mountain Bell-Colorado	\$20.50	4.0%	77.4%	5.2%
Connecticut	Southern New England Tel	\$19.16	3.1%	88.4%	3.5%
Delaware	Diamond State Tel Co	\$19.36	1.8%	71.1%	2.6%
Dist of Columbia	C And P Telephone Company Of Wa Dc	\$11.87	1.0%	77.1%	1.2%
Florida	Central Tel Co Of Florida	\$25.24	3.6%	71.7%	5.0%
Florida	Gas Flounders	\$17.21	2.6%	78.5%	3.3%
Florida	Southern Bell-Fl	\$17.47	1.8%	54.6%	3.3%
Florida	United Tel Co Of Florida	\$21.97	3.4%	88.8%	4.9%
Georgia	Southern Bell-Ga	\$21.04	3.0%	81.3%	3.7%
Idaho	Gas Hawaiian Telephone Co Inc	\$18.83	0.9%	52.7%	1.7%
Idaho	Mountain Bell-Idaho	\$25.50	4.3%	69.5%	6.1%
Idaho	Central Of Idaho Inc Gas - Idaho	\$51.84	4.3%	56.2%	7.7%
Idaho	Gas Of Idaho	\$37.07	1.9%	58.3%	3.0%
Illinois	Illinois Bell Tel Co	\$15.84	1.8%	78.7%	2.3%
Illinois	Central Of Indiana Inc Gas Gas - Indiana	\$48.57	2.4%	40.3%	8.0%
Illinois	Gas Of Indiana	\$27.97	4.0%	79.1%	5.1%
Illinois	Indiana Bell Tel Co	\$21.36	3.0%	63.5%	3.6%
Illinois	Southern Bell-Kentucky	\$24.02	2.8%	73.4%	3.6%
Kentucky	Cincinnati Bell-Ky	\$25.45	4.2%	81.3%	5.2%
Kentucky	Gas South Inc - Kentucky	\$33.02	5.0%	74.4%	6.7%
Kentucky	South Central Bell-Ky	\$29.55	4.8%	75.6%	6.5%
Kentucky	South Central Bell-La	\$25.36	3.2%	79.5%	4.0%
Kentucky	New England Tel-Maine	\$31.03	1.5%	55.8%	2.7%
Kentucky	Gas North Inc - Kentucky	\$18.57	2.7%	77.8%	3.5%
Kentucky	Gas North Inc - Kentucky	\$18.46	2.2%	83.5%	2.6%
Kentucky	Gas North Inc - Kentucky	\$38.80	7.2%	71.0%	10.1%
Kentucky	Michigan Bell Tel Co	\$19.37	3.3%	80.0%	4.1%
Kentucky	Central Of Minnesota Inc Gas Minnesota	\$60.51	3.2%	48.7%	8.5%
Kentucky	Northwestern Bell-Minnesota	\$20.92	2.8%	88.8%	3.3%
Kentucky	South Central Bell-Missouri	\$38.51	2.6%	81.8%	4.2%
Kentucky	Central Missouri Gas Co Missouri	\$57.78	1.1%	55.5%	3.2%
Kentucky	Gas North Inc - Missouri	\$40.07	1.9%	55.5%	3.3%
Kentucky	Southern Bell-Missouri	\$22.36	2.0%	72.5%	2.7%
Kentucky	Mountain Bell-Missouri	\$31.63	8.0%	77.0%	7.9%
Kentucky	Mountain Bell-Missouri	\$30.17			

Nebraska	Unicom Tel And Tele Co	\$32.58	\$33.28	2.1%	98.0%	3.0%	273,314
Nebraska	Northwestern Bell-Nebraska	\$28.30	\$28.80	1.8%	78.4%	2.5%	702,278
Nevada	Central Telephone Company - Nevada	\$14.75	\$14.80	0.4%	85.4%	0.5%	978,808
Nevada	Nevada Bell	\$24.65	\$25.18	2.2%	54.5%	4.1%	357,786
New Hampshire	New England Tel-Nh	\$24.33	\$24.74	1.7%	80.8%	2.8%	788,517
New Jersey	New Jersey Bell	\$15.25	\$15.53	1.8%	78.8%	2.3%	6,111,782
New Mexico	Mountain Bell-New Mexico	\$24.10	\$24.82	3.0%	78.5%	3.8%	802,818
New York	New York Tel	\$18.35	\$18.84	2.7%	71.3%	2.5%	11,822,293
New York	Rochester Telephone Corp	\$18.97	\$19.57	3.2%	83.0%	3.8%	530,018
North Carolina	Carolina Tel And Tel Co	\$34.18	\$34.74	1.6%	48.8%	3.5%	1,070,486
North Carolina	Central Tel Co-Nc	\$33.14	\$33.82	1.5%	54.8%	2.7%	248,782
North Carolina	Central Of North Carolina Dns Gsa Nc Carolina	\$44.88	\$45.88	2.0%	28.7%	7.4%	141,040
North Carolina	Gsa South Inc - North Carolina	\$20.37	\$20.88	2.5%	73.7%	4.7%	229,887
North Carolina	North State Tel Co-Nc	\$20.77	\$21.27	2.4%	88.2%	3.8%	178,187
North Carolina	Southern Bell-Nc	\$21.82	\$22.40	2.1%	70.6%	2.8%	2,520,311
North Dakota	Northwestern Bell-North Dakota	\$25.37	\$25.87	2.0%	80.7%	2.4%	341,083
Ohio	Cincinnati Bell-Ohio	\$17.38	\$17.80	2.1%	88.3%	3.5%	783,783
Ohio	Gsa North Inc - Oh	\$35.78	\$36.12	0.9%	72.8%	8.0%	858,377
Ohio	Ohio Bell Tel Co	\$17.78	\$18.28	2.8%	88.8%	2.8%	4,385,371
Ohio	United Tel Co Of Ohio	\$31.45	\$32.55	3.5%	75.4%	8.8%	971,210
Oklahoma	Gsa Southwest Inc - Oklahoma	\$35.50	\$35.88	1.1%	81.4%	2.7%	111,888
Oklahoma	Southwestern Bell-Oklahoma	\$25.83	\$26.85	3.9%	58.8%	2.1%	1,789,432
Oregon	Gsa Of The Northwest	\$23.58	\$24.88	5.5%	10.5%	28.4%	480,188
Oregon	Pacific Northwest Bell-Oregon	\$18.72	\$20.88	11.5%	40.8%	28.2%	1,887,372
Pennsylvania	Bell Of Pennsylvania	\$17.87	\$18.30	2.4%	75.8%	2.4%	8,282,871
Pennsylvania	Gsa North Inc - Pa And Control	\$27.88	\$27.88	0.0%	85.5%	3.4%	528,872
Rhode Island	New England Tel-Ri	\$17.48	\$17.88	2.3%	88.2%	2.8%	688,877
South Carolina	Gsa South Inc - South Carolina	\$30.44	\$30.44	0.0%	84.4%	5.3%	187,878
South Carolina	Southern Bell-Sc	\$24.73	\$25.82	4.4%	78.4%	5.8%	1,471,788
South Dakota	Northwestern Bell-South Dakota	\$28.47	\$29.02	1.9%	73.6%	2.8%	328,888
Tennessee	South Central Bell-Tn	\$28.17	\$28.17	0.0%	77.0%	3.4%	2,148,388
Tennessee	United Tel-Northern Tel Co-Tn	\$27.18	\$27.83	2.4%	70.3%	4.1%	250,183
Texas	Central Telephone Company Of Texas	\$31.53	\$32.30	2.5%	70.6%	3.5%	253,878
Texas	Central Of Texas Inc Dns Gsa Texas	\$87.88	\$88.30	0.5%	21.5%	2.7%	242,818
Texas	Gsa Southwest Inc - Texas	\$27.84	\$28.44	2.2%	70.3%	3.1%	1,877,888
Texas	Southwestern Bell-Texas	\$19.48	\$19.88	2.1%	77.7%	2.8%	10,720,712
Utah	Mountain Bell-Utah	\$19.83	\$19.47	-1.8%	70.4%	4.0%	1,288,107
Vermont	New England Tel-Vt	\$33.14	\$33.27	0.4%	44.2%	0.8%	347,838
Washington	Gsa Northwest Inc - Washington	\$22.48	\$22.81	1.5%	50.8%	4.0%	741,383
Washington	Pacific Northwest Bell-Washington	\$18.73	\$19.11	2.1%	81.1%	3.5%	2,773,122
West Virginia	C And P Tel Co Of W Va	\$35.52	\$36.01	1.4%	58.7%	2.3%	815,403
Wisconsin	Gsa North Inc - Wt	\$44.21	\$44.78	1.3%	58.7%	8.8%	473,354
Wisconsin	Wisconsin Bell	\$18.83	\$19.48	3.5%	80.7%	3.8%	2,378,832
Wyoming	Mountain Bell-Wyoming	\$33.03	\$33.81	2.4%	77.3%	11.3%	254,157
	Weighted Average	\$28.28	\$28.82	2.0%	73.8%	3.8%	188,881,832

This analysis was implemented by performing two nationwide runs of the May 18, 1988 version of the Synthesis Model. The first run (Col. A) used the actual basecode files plus weighted basecode files provided by PNR to the Commission. The second run (Col. B) substituted the Commission's all-roads basecode files for the actual basecodes in the base files. The percent difference in Col. C represents the minimum cost inflation from replacing available basecodes with road basecodes. Division Col. C by the percent available basecodes in Col. D provides in Col. E an upper bound estimate for the cost inflation from the total effect of road basecodes.

**CERTIFICATE OF SERVICE**

I, Rudolph M. Kammerer, do hereby certify that I caused one copy of the foregoing Reply Comments of AT&T Corp. and MCI WorldCom, Inc. to be served by First Class mail on all parties on the attached service list, this 6th day of August, 1999.

/s/   
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